

Message Text

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AMEMBASSY TOKYO PRIORITY
AMEMBASSY VIENNA PRIORITY
INFO AMEMBASSY COPENHAGEN
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TAGS: EFIN, PO

SUBJECT:PROGRESS REPORT ON FINANCIAL ASSISTANCE TO PORTUGAL

REF: STATE 225509 (SEPTEMBER 20, 1977)

1. THE U.S. UNDERTOOK TO INFORM PARTICIPATING COUNTRIES
OF PROGRESS ON IMPLEMENTATION OF THE COOPERATIVE FINANCING
EFFORT FOR PORTUGAL. WE ISSUED THE FIRST SUCH REPORT
IN SEPTEMBER (REFTEL). A SECOND WAS SCHEDULED FOR

JANUARY, BUT HAS BEEN DELAYED BECAUSE OF THE DELAY IN PORTUGUESE CREDIT TRANCHE NEGOTIATIONS WITH THE IMF. NOW THAT THE FUND AND PORTUGAL HAVE REACHED ACCORD, WE INTEND TO ISSUE THE SECOND PROGRESS REPORT. THIS WILL BE DONE IN TWO STAGES. FIRST WE NEED TO UPDATE OUR INFORMATION ON THE PROGRESS OF PARTICIPATING COUNTRIES IN MAKING FINANCING AVAILABLE TO PORTUGAL. THE SECOND STAGE WILL BE THE ISSUANCE OF THE REPORT.

2. ADDRESSEE POSTS ARE REQUESTED TO APPROACH APPROPRIATE HOST GOVERNMENT OFFICIALS FOR UPDATE AND DETAILS PERTAINING TO HOST GOVERNMENT ACTION TO PROVIDE MEDIUM TERM CREDITS FOR BALANCE OF PAYMENTS ASSISTANCE TO PORTUGAL. PARAGRAPHS 5 TO 18 BELOW ARE WHAT WE KNOW OF ACTIONS TAKEN BY INDIVIDUAL COUNTRIES, BASED ON REPORTS FROM EMBASSIES AND LISBON SINCE SEPTEMBER. YOU SHOULD ONLY PROVIDE HOST GOVERNMENT CONTENTS OF PARAGRAPH 4 RELATING TO U.S. PROGRAMS, AND CONTENTS OF PARAGRAPH RELATING TO HOST COUNTRY, WITH REQUEST THAT IT BE UPDATED.

3. YOU SHOULD INFORM HOST GOVERNMENT THAT PROGRESS REPORT WILL BE ISSUED SOON, BASED ON INFORMATION THEY, AND OTHER LIMITED OFFICIAL USE
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PARTICIPANTS, PROVIDE. THIS WILL BE CIRCULATED TO ALL PARTICIPANTS. WE WOULD PLAN TO ISSUE MORE COMPLETE REPORT LATER THIS YEAR.

4. UNITED STATES. AFTER HOLDING PRELIMINARY DISCUSSIONS WITH THE BANK OF PORTUGAL ON THE TERMS OF THE U.S. LOAN AGREEMENT DURING OCTOBER AND NOVEMBER, THE U.S. AND PORTUGAL OPENED FORMAL NEGOTIATIONS OF THE LOAN AGREEMENT IN LATE FEBRUARY AND SIGNED THE FINAL AGREEMENT ON MARCH 1. THE TERMS OF THE LOAN AGREEMENT WERE AS ANTICIPATED IN REFTEL. THE RATE OF INTEREST BASED ON THE RATE FOR 10-YEAR U.S. TREASURY BILLS ON THE DAY ON WHICH FORMAL NEGOTIATIONS COMMENCED WAS SET AT 8.15 PERCENT. THE FIRST DISBURSEMENT OF THE U.S. LOAN FOR 200 MILLION DOLLARS WAS CONDITIONED ON PORTUGAL NEGOTIATING IN GOOD FAITH WITH THE IMF ON A SECOND CREDIT TRANCHE STAND-BY. ON MAY 8, 1978 THE U.S. RECEIVED FROM THE MANAGING DIRECTOR OF THE IMF A LETTER INDICATING THAT PORTUGAL HAD SUBMITTED TO THE IMF A LETTER OF INTENT WITH RESPECT TO A SECOND CREDIT TRANCHE STAND-BY. RECEIPT BY THE IMF OF THE LETTER OF INTENT WAS DEEMED TO FULFILL THE CONDITION OF QTE NEGOTIATING IN GOOD FAITH. UNQTE. THE FIRST 200 MILLION DOLLARS TRANCHE OF THE U.S. LOAN WAS DISBURSED ON MAY 12. THE SECOND 100 MILLION DOLLARS TRANCHE WILL BE DISBURSED APPROXIMATELY 120 DAYS AFTER THE U.S. RECEIVES FROM PORTUGAL A COPY OF THE DECISION OF THE IMF EXECUTIVE BOARD APPROVING A SECOND IMF CREDIT TRANCHE

STAND-BY ARRANGEMENT FOR PORTUGAL.

5. FEDERAL REPUBLIC OF GERMANY. IT IS OUR UNDERSTANDING THAT NEGOTIATIONS BETWEEN PORTUGAL AND FRG OFFICIALS AND WITH MAJOR GERMAN COMMERCIAL BANKS BEGAN IN MAY. FRG OFFICIALS ANTICIPATE NO DIFFICULTY RAISING FUNDS AND EARLY DISBURSEMENT IS EXPECTED.

6. JAPAN. REPORT RECEIVED FROM LISBON ON MARCH 20
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INDICATED THAT CONCLUSION OF THE BILATERAL AGREEMENT FOR JAPAN'S 75 MILLION DOLLARS LOAN WAS EXPECTED SHORTLY.

7. SWITZERLAND. SWITZERLAND DISBURSED THE FULL AMOUNT OF ITS 30 MILLION DOLLARS LOAN PRIOR TO THE END OF 1977.

8. VENEZUELA. PER REFTEL VENEZUELA WAS SCHEDULED TO MAKE THREE DEPOSITS OF 7.5 MILLION DOLLARS WITH THE BANK OF PORTUGAL ON SEPTEMBER 23, DECEMBER 23 AND MARCH 23.

9. THE NETHERLANDS. A MARCH REPORT FROM THE HAGUE INDICATED THAT CONCLUSION OF INTERNAL AND EXTERNAL ARRANGEMENTS FOR THE DUTCH LOAN WAS EXPECTED BY THE END OF APRIL. TERMS OF THE LOAN HAD ALTERED SLIGHTLY FROM THE TERMS ANTICIPATED LAST SEPTEMBER. THE SIZE OF THE LOAN REMAINS 50 MILLION GUILDERS AND THE FIRST INSTALLMENT OF 25 MILLION GUILDERS WILL STILL BE GRANTED WHEN PORTUGAL MAKES ITS DRAWING FROM THE SECOND IMF CREDIT TRANCHE. THE SECOND INSTALLMENT WOULD NOW BE PAYABLE BY THE END OF 1978 PROVIDING INFORMATION SHOWS THAT PORTUGAL IS MAKING GOOD FAITH EFFORTS TO CARRY OUT THE IMF ECONOMIC PROGRAM.

10. UNITED KINGDOM. THE U.K. LOAN AGREEMENT WAS SIGNED IN LISBON ON MARCH 10. DETAILS ON LOAN AGREEMENT ARE AS FOLLOWS: (A) THE LOAN IS FOR U.S. 20 MILLION DOLLARS AND IS SO DENOMINATED; (B) IT IS A BALANCE OF PAYMENTS LOAN FROM HMG MADE AVAILABLE BY THE MINISTRY OF OVERSEAS DEVELOPMENT AND H.M. TREASURY USING APPROPRIATED FUNDS; (C) THE LOAN WILL HAVE A MATURITY OF SEVEN YEARS WITH A GRACE PERIOD OF THREE YEARS ON THE REPAYMENT OF PRINCIPAL; (D) THE LOAN CARRIES AN INTEREST RATE FIXED
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FOR THE WHOLE AMOUNT OF THE LOAN AT 3/4 PERCENT ABOVE THE MARKET RATE FOR 7 YEARS EURODOLLARS AT THE TIME OF

THE SIGNING OF THE AGREEMENT. THE MARKET RATE FOR 7 YEAR EURODOLLARS ON MARCH 10 WAS 8-11/16 PERCENT. THE RATE OF INTEREST FOR THE LOAN IS THEREFORE 9-7/16 PERCENT; (E) THE LOAN WILL BE DISBURSED IN TWO EQUAL INSTALLMENTS OF 10 MILLION DOLLARS EACH. THE FIRST INSTALLMENT WAS TO BE DISBURSED IN MARCH. THE SECOND WILL BE DISBURSED AFTER PORTUGAL HAS REACHED AGREEMENT WITH THE IMF ON A SECOND CREDIT TRANCHE, PROVIDED PORTUGAL IS NOT IN BREACH OF ANY CONDITIONS WHICH THE IMF MAY HAVE ATTACHED TO SUCH A STAND-BY, THE PRECISE DATE TO BE DETERMINED IN CONSULTATION WITH THE GOVERNMENT OF PORTUGAL.

11. FRANCE. THE GOVERNMENT OF FRANCE HAS INDICATED THAT IT INTENDS TO PROVIDE A 15 MILLION DOLLARS CREDIT TO PORTUGAL. NO OTHER DETAILS OR PROGRESS ON THE LOAN AGREEMENT HAS BEEN REPORTED, AND WE WOULD APPRECIATE ANY FURTHER DETAILS THE GOF COULD MAKE AVAILABLE.

12. AUSTRIA. AUSTRIA AND PORTUGAL CONCLUDED NEGOTIATIONS AND INITIALED A LOAN AGREEMENT IN MARCH. THE FOLLOWING DETAILS OF THE AGREEMENT HAVE BEEN REPORTED: AMOUNT - 10 MILLION DOLLARS; INTEREST RATE - QTE SLIGHTLY UNDER UNQTE 8 PERCENT; LOAN MATURITY OF 10 YEARS WITH A FIVE YEAR GRACE PERIOD; DISBURSEMENTS ARE PLANNED IN TWO TRANCHES AND ARE RELATED TO PROGRESS IN PORTUGAL'S NEGOTIATIONS WITH THE IMF.

13. ITALY. CHARACTERISTICS OF LOAN ARE AS CITED IN REFTEL. THE AMOUNT PLEDGED BY ITALY IS 10 MILLION DOLLARS. NO OTHER DETAILS OR PROGRESS HAS BEEN REPORTED. EMBASSY'S LAST REPORT ON ITALIAN PROGRESS (ROME 21291 OF DECEMBER 29, NOTAL) WAS PESSIMISTIC. PLEASE INQUIRE OF APPROPRIATE GOI OFFICIALS REGARDING PROGRESS OF INTERNAL PROCEDURES FOR LIMITED OFFICIAL USE
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APPROVING FORMAT OF LOAN AGREEMENT AND ANY EXTERNAL PROGRESS WITH PORTUGUESE AUTHORITIES ON LOAN AGREEMENT.

14. NORWAY. CHARACTERISTICS OF NORWEGIAN LOAN WERE REPORTED REFTEL. NORWAY DISBURSED 3.3 MILLION DOLLARS OF ITS LOAN BY THE END OF 1977. ADDITIONAL DISBURSEMENTS OR INTENDED SCHEDULE OF DISBURSEMENTS HAS NOT BEEN REPORTED.

15. SWEDEN. WE HAVE RECEIVED NO REPORTS OF THE DETAILS OF SWEDEN'S INTENDED LOAN TO PORTUGAL -- NOT EVEN THE AMOUNT. EMBASSY IS REQUESTED TO INQUIRE OF GOS OFFICIALS DETAILS OF INTENDED LOAN AS WELL AS INTERNAL PROGRESS IN APPROVING LOAN AND PROGRESS IN NEGOTIATIONS WITH PORTUGUESE.

16. BELGIUM. BELGIUM INDICATED TO US LAST SEPTEMBER ITS

INTENTION TO PROVIDE A CREDIT ON THE ORDER OF 3 MILLION DOLLARS. AT THAT TIME THE BELGIUM GOVERNMENT PLANNED TO SUBMIT A BILL TO THE PARLIAMEMT IN EARLY OCTOBER (THIS WAS DONE OCTOBER 6) REQUESTING A ONE-TIME LOAN GUARANTEE AUTHORITY COVERING MARKET RATE, MEDIUM-TERM (5-10 YEARS) PRIVATE BELGIUM BANK LOANS TO PORTUGAL. UNDER THE TERMS OF THE PLANNED LEGISLATION, LOANS UNDER THE GUARANTEE WOULD APPLY TO ONE HUNDRED PERCENT OF LOAN PRINCIPAL, INTEREST AND ANY ASSOCIATED COSTS OR CHARGES. GUARANTEE COVERAGE WOULD BE ARRANGED DIRECTLY BETWEEN THE BELGIAN GOVERNMENT AND PRIVATE BELGIAN LENDING INSTITUTIONS. THESE PRIVATE BELGIAN SOURCES WOULD IN TURN DEAL DIRECTLY WITH PUBLIC AND/OR PRIVATE FINANCIAL INSTITUTIONS IN PORTUGAL. NO GOVERNMENT-TO-GOVERNMENT AGREEMENT IS CONTEMPLATED. THERE HAVE BEEN SUBSEQUENT INDICATION THE GOB MIGHT INCREASE THE AMOUNT OF ITS GUARANTEE; ANY FURTHER DETAILS WOULD BE APPRECIATED.

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17. CANADA. AS REPORTED REFTTEL, IN CONJUNCTION WITH THE MULTI-NATION LENDING PROGRAM CANADA WILL PROVIDE APPROXIMATELY 15 MILLION DOLLARS IN GRANT WHEAT TO PORTUGAL. REPORTS THAT GRAIN DELIVERIES HAVE ALREADY BEGUN HAVE NOT BEEN CONFIRMED.

18. IRELAND. IRELAND HAS NOT INDICATED THAT IT HAS REACHED A FINAL DECISION ON WHETHER TO PARTICIPATE IN THE MULTI-NATION LENDING PROGRAM. EMBASSY SHOULD INQUIRE WHETHER SUCH A DECISION HAS BEEN MADE AND FOR DETAILS OF ANY PLANNED PARTICIPATION IN THE LENDING PROGRAM. VANCE

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